Public Accounts

CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2005

PUBLIC ACCOUNTS

OF THE

GOVERNMENT OF NUNAVUT

FOR THE YEAR ENDED MARCH 31, 2005

HONOURABLE DAVID SIMAILAK

Minister of Finance

THE HONOURABLE ANN M. HANSON
COMMISSIONER OF NUNAVUT

I have the honour to present the Public Accounts of Nunavut for the fiscal year ended March 31, 2005. I would ask that these accounts be laid before the Legislative Assembly in accordance with the *Financial Administration Act*, R.S.N.W.T. 1988, c.F-4, S. 74 as amended, and duplicated for Nunavut, and the *Nunavut Act*, S.C. 1993, C.28, s.44.

Honourable David Simailak
Minister of Finance

Government of Nunavut
Iqaluit, Nunavut
November 29, 2006

CONSOLIDATED FINANCIAL STATEMENTS

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STATEMENT OF MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

The preparation of these consolidated financial statements for the Government of Nunavut, and related information contained in the Public Accounts, is the responsibility of management of the Department of Finance.

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) for governments recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants. When GAAP permits alternative accounting methods, management has chosen those it believes are most appropriate. Where required, management's best estimates and judgments have been applied in the preparation of these statements.

The Government fulfills its accounting and reporting responsibilities, through the Department of Finance, by maintaining systems of financial management and control. These systems are continually enhanced and modified to provide accurate information, to safeguard and control the Government's assets, and to ensure that all transactions are in accordance with the *Financial Administration Act*.

The Public Accounts are referred to the Standing Committee on Government Operations and Services after they have been tabled in the Legislative Assembly. The recommendations of this committee will be reviewed and acted on, where appropriate, to improve financial management and control as well as reporting practices, and the systems of internal controls.

The Auditor General of Canada conducts an annual audit of the consolidated financial statements in order to express an opinion as to whether the statements present fairly the financial position, results of operations, change in net debt and cash flows for the year. During the course of the audit, she also examines transactions that have come to her notice, to ensure that they are, in all significant respects, within the statutory powers of the Government and those organizations included in the consolidation. The Auditor General's opinion is included with the consolidated financial statements.

After completion of the audit, the Auditor General provides additional information, comments, and recommendations in her annual report to the Legislative Assembly of Nunavut.

The fundamental purpose of the financial statements is to provide information to the Legislative Assembly and the public as to the full nature and extent of the Government's financial affairs. The Government is complex, and no one measure can capture all aspects of its finances. Together the four main financial statements provide five messages. The consolidated statement of financial position illustrates both net debt and accumulated surplus. Net debt provides a measure of the future revenues required to pay for past transactions and events. Accumulated surplus represents the government's total financial and non-financial resources and obligations. The consolidated statement of operations gives an indication of whether or not the government has maintained its assets during the year. The consolidated statement of net debt reports whether revenues were able to cover the spending. Finally, the consolidated statement of cash flows shows sources and uses of cash during the year.

Honourable David Simailak
Minister of Finance

Gerry O'Donnell, CGA
Comptroller General

Auditor General of Canada
Vérificatrice générale du Canada

AUDITOR'S REPORT

To the Legislative Assembly of Nunavut

I have audited the consolidated statement of financial position of the Government of Nunavut as at March 31, 2005 and the consolidated statements of operations and accumulated surplus, change in net debt and cash flows for the year then ended. These financial statements are the responsibility of the Government. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Government, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Government as at March 31, 2005 and the results of its operations, the change in its net debt and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Under section 44 of the *Nunavut Act* (Canada), the government is required to table its consolidated financial statements in the Legislative Assembly by December 31 each year for the fiscal year ended in March that year. As I have reported in my reports to Nunavut's Legislative Assembly, the Government has never met this requirement. For the first five years of Nunavut's operations, the Government tabled its consolidated financial statements some 5 or 6 months after the deadline, and some 14 or 15 months after year end. For this sixth year, the Government has again not tabled its consolidated financial statements by the deadline.

Further, in my opinion, except for the failure to meet the deadline for tabling consolidated financial statements described in the above paragraph, the transactions of the Government and of those organizations listed in Note 1 to the consolidated financial statements that have come to my notice during my audit of the consolidated financial statements have, in all significant respects, been in accordance with the Government's powers under the *Nunavut Act*, the Nunavut *Financial Administration Act* and regulations and the specific operating authorities disclosed in Note 1.

Additional information and comments on the consolidated financial statements and this opinion will be included in my next report to the Legislative Assembly of Nunavut.

Sheila Fraser

Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
October 31, 2006

240 rue Sparks Street, Ottawa, Ontario K1A 0G6

GOVERNMENT OF NUNAVUT

Consolidated Statement of Financial Position

as at March 31

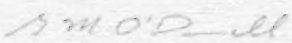
(thousands of dollars)

	2005	2004
Liabilities		
Accounts payable and accrued liabilities (Note 8)	$ 202,257	$ 163,032
Employee future benefits (Note 9 (a))	16,018	18,672
Pension liabilities (Note 9 (b))	4,028	3,209
Long term debt (Note 10)	55,761	57,407
Capital lease obligations (Note 13)	130,789	138,302
Total liabilities	408,853	380,622
Financial assets		
Cash and temporary investments (Note 3)	35,643	51,391
Long term investments (Note 4)	7,363	4,043
Due from Canada	78,679	70,664
Revenues receivable (Note 5)	85,967	44,924
Bulk fuels and other inventories for resale	35,936	24,893
Loans receivable (Note 6)	17,568	16,074
Investment in Qulliq Energy Corporation (Note 7)	41,644	14,101
Total financial assets	302,800	226,090
Net debt	(106,053)	(154,532)
Non-financial assets		
Tangible capital assets (Schedule B)	1,063,671	1,003,815
Prepaid assets	2,682	8,120
Total non-financial assets	1,066,353	1,011,935
Accumulated surplus	$ 960,300	$ 857,403

Commitments (Note 14)
Contingencies (Note 15)

Approved:

Honourable David Simailak
Minister of Finance



Gerry O'Donnell, CGA
Comptroller General

The accompanying notes and schedules are an integral part of the consolidated financial statements

GOVERNMENT OF NUNAVUT

Consolidated Statement of Operations and Accumulated Surplus
for the year ended March 31
(thousands of dollars)

	2005	2004
Revenues		
From Canada (Schedule A)	$ 883,106	$ 789,540
Revenues generated by Nunavut (Schedule A)	89,120	95,986
Total revenues	972,226	885,526
Expenses (Note 11)		
Health and Social Services	203,828	191,817
Education	176,494	177,741
Community and Government Services	152,731	151,368
Nunavut Housing Corporation	128,996	126,625
Finance	64,147	55,644
Justice	52,005	48,243
Economic Development and Transportation	41,049	44,491
Other	67,622	65,242
Total expenses	886,872	861,171
Excess of revenues over expenses	85,354	24,355
Net gain (loss) - Qulliq Energy Corporation (Note 7)	17,543	(5,451)
Projects for Canada and others		
Revenues	37,381	30,001
Expenses	(37,381)	(30,001)
Surplus for the year	102,897	18,904
Accumulated surplus, beginning of the year	857,403	838,499
Accumulated surplus, end of the year	$ 960,300	$ 857,403

The accompanying notes and schedules are an integral part of the consolidated financial statements

GOVERNMENT OF NUNAVUT

Consolidated Statement of Change in Net Debt
as at March 31
(thousands of dollars)

	2005	2004
Surplus for the year	$ 102,897	$ 18,904
Tangible capital assets		
Acquisition	(105,625)	(115,044)
Amortization	39,608	35,727
Disposals and write-downs	6,161	2,944
	(59,856)	(76,373)
Net use (acquisition) of prepaid assets	5,438	(6,457)
Decrease (increase) in net debt	48,479	(63,926)
Net debt, beginning of the year	(154,532)	(90,606)
Net debt, end of the year	$ (106,053)	$ (154,532)

The accompanying notes and schedules are an integral part of the consolidated financial statements

GOVERNMENT OF NUNAVUT

Consolidated Statement of Cash Flows

for the year ended March 31

(thousands of dollars)

	2005	2004
Cash provided by (used for) government operations:		
Transfers from Canada	$ 923,364	$ 894,280
Taxes	38,299	46,261
Other government revenues	127,696	112,634
Grants and contributions	(153,064)	(137,249)
Salaries and employee benefits	(292,751)	(280,844)
Goods and services acquired	(508,972)	(478,517)
Cash provided by government operations	134,572	156,565
Cash provided by (used for) capital activities:		
Acquisition of capital assets, net of long term debt assumed	(119,556)	(118,609)
Sale of tangible capital assets	9,319	3,122
Cash used for capital activities	(110,237)	(115,487)
Cash provided by (used for) investing activities:		
Loans to municipalities, businesses and individuals	(8,098)	(2,601)
Acquisition of long term investments	(3,320)	(2,033)
Loan repayments received by the government	3,585	6,222
Investment in Qulliq Energy Corporation	(10,000)	-
Cash provided by (used for) investing activities	(17,833)	1,588
Cash used for financing activities:		
Payment of principal and interest under capital leases	(16,556)	(15,200)
Payment of principal and interest on long term debt	(5,694)	(5,696)
Cash used for financing activities	(22,250)	(20,896)
Increase (decrease) in cash and temporary investments	(15,748)	21,770
Cash and temporary investments, beginning of the year	51,391	29,621
Cash and temporary investments, end of the year	$ 35,643	$ 51,391

The accompanying notes and schedules are an integral part of the consolidated financial statements

1 AUTHORITY AND OPERATIONS

a) Authority and government reporting entity

The Government of Nunavut (the Government) operates under the authority of the *Nunavut Act (Canada)*. The Government has an elected legislative assembly which annually authorizes all disbursements except those specifically authorized by statute.

These consolidated financial statements are prepared in accordance with the *Nunavut Act (Canada)* and the Nunavut *Financial Administration Act*. The following organizations comprise the reporting entity represented by these consolidated financial statements. These organizations are accountable to, and are either owned or controlled by, the Government.

All have a March 31 fiscal year end, except for Nunavut Arctic College which has a June 30 year end.

Entities fully consolidated in these financial statements	**Authority for operations**
Government of Nunavut, including those departments set out in the Government's Main Estimates	*Financial Administration Act*
Revolving funds including the Petroleum Products Revolving Fund and the Liquor Revolving Fund	*Revolving Funds Act*
Nunavut Housing Corporation	*Nunavut Housing Corporation Act*
Nunavut Arctic College	*Public Colleges Act*
Nunavut Development Corporation	*Nunavut Development Corporation Act*
Nunavut Business Credit Corporation	*Nunavut Business Credit Corporation Act*

Entities presented in these financial statements using modified equity accounting	**Authority for operations**
Qulliq Energy Corporation	*Qulliq Energy Corporation Act*

b) A comparison of budgeted and actual operations is provided in the Government's unaudited, unconsolidated financial statements which are included in the Government's Public Accounts.

2 SIGNIFICANT ACCOUNTING POLICIES

Section 45 of the *Nunavut Act (Canada)* requires that the Government's consolidated financial statements be prepared in accordance with accounting principles recommended by the Canadian Institute of Chartered Accountants.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accordingly, the Government has adopted the recommendations of the Public Sector Accounting Board as the primary basis of its accounting policies.

a) Principles of consolidation

All entities included in the reporting entity, other than the Qulliq Energy Corporation (QEC), are fully consolidated. Significant transactions and balances between consolidated entities are eliminated.

QEC is a Government business enterprise and is accounted for using modified equity accounting. Under this method, the Government only reports its investment in QEC and the corporation's net income (loss). Financial transactions and balances between QEC and other entities in the reporting entity are not eliminated.

b) Measurement uncertainty

Canadian generally accepted accounting principles for governments recommended by the Canadian Institute of Chartered Accountants require the Government to make estimates and assumptions that affect the amounts of certain assets, liabilities, revenues and expenses reported in these financial statements. Some of the more significant areas where estimates have been used to prepare these financial statements include:

(i) Income tax revenues (collected by Canada on the Government's behalf) and grant revenue from Canada in areas such as the Canada Health and Social Transfer. These revenues and grants are subject to revision by Canada in future years; and

(ii) Allowance for doubtful accounts, loan valuation allowances, provision for losses on loan guarantees and employee future benefits.

By their nature, estimates are subject to measurement uncertainty. Estimates contained in these financial statements are the Government's best estimates at the date these statements were prepared. However, changes to these estimates might have a significant effect on future financial statements.

c) Employee future benefits

Non-Pension

Under the terms and conditions of employment, government employees may earn non-pension benefits for severance and removal costs based on years of service. The estimated liability and related expenses for severance and removal costs are recorded as employees earn these benefits. The cost of the benefits has been determined based on management's best estimates.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Pension

Government employees participate in the Public Service Pension Plan administered by the Government of Canada. The Government contributes at a rate of 2.14 times (2004 - 2.14 times) the employee's contribution. The Government's contributions are charged as an expense on a current year basis and represent the total pension obligations.

Pension benefits to Members of the Legislative Assembly are determined on an actuarial basis. This is done to determine the current value of future entitlement and uses various estimates. When actual experience varies from estimates, the adjustments needed are amortized over the estimated average remaining service lives of the contributors.

d) Obligations under leases

The Government classifies its leases for buildings and equipment as either capital or operating leases, as appropriate.

Capital leases

Those leases which transfer substantially all the benefits and risks of ownership of property to the Government are accounted for as both a tangible capital asset and a related capital lease obligation. Both are initially recorded at the present value of the minimum lease payments, effective at the beginning of the lease.

Operating leases

Operating leases are those leases where substantially all the benefits and risks of ownership are not transferred to the Government. Lease payments under operating leases are expensed.

e) Cash and investments

Temporary investments are valued at the lower of cost and market value. Interest income is recorded on an accrual basis.

Long term investments are valued at cost with premiums and discounts amortized over the period to maturity. Unrealized losses are only recognized when it is determined there is a permanent decline in the value of investments. Interest income, gains and losses on disposal and adjustments to record any impairment in value, that is other than temporary, are included in revenue.

f) Inventories for resale

Inventories for resale include bulk fuel, liquor and arts and crafts. Bulk fuel and arts and crafts are valued at the lower of cost and net recoverable value. Liquor inventory is valued at the lower of cost and replacement cost.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Loans receivable

Loans receivable are valued at the lower of cost and net recoverable value. Valuation allowances recorded to reduce loans receivable are based on all circumstances known at the date these financial statements are prepared, including past events and current conditions. Interest revenue is not accrued when the collectibility of either principal or interest is not reasonably assured.

h) Investment in Qulliq Energy Corporation

The Government is the sole shareholder of the Qulliq Energy Corporation (QEC), a Crown corporation providing utility services to Nunavut Territory. Operations of QEC are accounted for in accordance with the modified equity basis of accounting.

i) Non-financial assets

Tangible capital and other non-financial assets are accounted for by the Government as they can be used to provide government services in future periods. Therefore, these assets will not provide resources to discharge the liabilities of the Government.

j) Tangible capital assets

Tangible capital assets include buildings, roads, equipment, etc. whose economic life extends beyond a fiscal year and are intended to be used on an ongoing basis for delivering services.

Tangible capital assets are recorded at cost less accumulated amortization. Tangible capital assets, when placed in service, are amortized on a straight line basis over their economic life.

Gifted and cost shared tangible capital assets from Canada are recorded at their fair market value, upon receipt, with the gifted or cost shared portion shown as deferred revenue. This deferred revenue is amortized into revenue on the same basis as the related asset is amortized.

Tangible capital assets under construction or development are recorded as work in progress with no amortization until the asset is placed into service.

Works of art, historical treasures and crown lands are not recorded in the consolidated financial statements.

k) Revenues

Unless otherwise stated, all revenues are reported on an accrual basis in the period in which transactions or events give rise to the revenues. Specific revenue accounting policies are as follows:

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Grant from Canada

The Government receives transfer payments in the form of a grant from Canada pursuant to Bill C-24, *An Act to amend the Federal-Provincial Fiscal Arrangements Act and to make consequential amendments to other Acts (fiscal equalization payments to the provinces and funding to the territories)* (Canada).

Entitlements under the Formula Financing Agreement (1999/2000 to 2003/2004) came to an end as of March 31, 2004. Under the new legislation the final amount of the grant for any one fiscal year is subject to adjustment for a number of years. The legislation specifies the exact entitlement amount for 2004/2005 and 2005/2006. For future years, the grant is to be determined as a proportion of the aggregate quantum for the three territories specified in the legislation.

Should any adjustments arise in the future concerning prior years, they will be accounted for in the year in which federal legislation authorizes the adjustment.

Other transfers from Canada

Other transfers from Canada are recognized as revenue in the period that the events giving rise to the transfer occurs as long as: (i) the transfer is authorized; (ii) the Government has met eligibility criteria, if any; and (iii) a reasonable estimate of the amount of the transfer can be made.

Government transfers received before these criteria are met are deferred and included in accounts payable and accrued liabilities until the criteria are met.

Taxes and general revenues

Income tax revenue is recognized on an accrued basis. Taxes, under the *Income Tax Act*, are collected by Canada on behalf of the Government under a tax collection agreement and are remitted to the Government monthly. The remittances are based on Canada's Department of Finance estimates for the taxation year, which are periodically adjusted until the income tax assessments for that year are final. Changes to personal and corporate income tax estimates can have a significant impact on the grant from Canada.

Property taxes are assessed on a calendar year basis and are recorded on an accrual basis in the fiscal year in which the calendar year ends.

Other taxes are accrued based on information provided by those parties who collect tax on the Government's behalf.

l) Expenses

Expenses are recorded on an accrual basis.

Grants and contributions are recorded as expenses when the following criteria are all met: (i) the grant or contribution has the necessary authorization; (ii) the recipient has met eligibility criteria, if any; and (iii) a reasonable estimate of the amount of the transfer can be made.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Grants or contributions paid prior to all three conditions being met are accounted for as prepaid expenses until all conditions are met.

m) Environmental liabilities

Environmental liabilities consist of the estimated costs related to the remediation of environmentally contaminated sites. An environmental liability is accrued and an expense recorded based on management's best estimates when the contamination occurs or when the Government becomes aware of the contamination and is obligated or is likely obligated to incur such costs. If the likelihood of the Government's obligation to incur these costs is not determinable or if an amount cannot be reasonably estimated, the contingency is disclosed in the notes to the financial statements (Note 15 (b)). Accrued environmental liabilities are reported as part of accrued liabilities.

3 CASH AND TEMPORARY INVESTMENTS

	2005			2004
			(thousands of dollars)	
	Effective rate of return	Term to Maturity	Carrying Value	Carrying Value
Chartered Banks			$ 7,786	$ 28,953
Designated Cash and Investments			4,565	3,993
Money Market Funds	5.46%	159 days	23,292	18,445
			$ 35,643	$ 51,391

Designated Cash of $3,393,000 (2004 - $2,829,000) is invested for the purpose of meeting the obligations of the retirement funds for the Legislative Assembly. These amounts cannot be used to discharge other obligations incurred by the Government. The assets in the investment portfolio are managed by a third party. The Statement of Investment Policy establishes the eligible classes of securities, categories of issuers, limits and terms. The market value of the investment portfolio at March 31, 2005 was $4,056,000 (2004 - $3,447,000) with a return of 7.41% (2004 - 24.29%).

Designated cash of $1,172,000 (2004 - $1,164,000) represents funds reserved for further investments or financing for subsidiary business enterprises and venture investments.

4 LONG TERM INVESTMENTS

	2005			2004
			(thousands of dollars)	
	Effective rate of return	Term to Maturity	Carrying Value	Carrying Value
Government of Canada	3.26%	1 to 3 years	$ 1,031	$ 2,064
Trust Company	3.55%	1 to 3 years	1,015	979
Provincial Government	4.59%	1 to 9 years	5,317	1,000
			$ 7,363	$ 4,043

The average yield of this portfolio in 2005 was 4.26% (2004 - 3.85%).

5 REVENUES RECEIVABLE

	2005	2004
	(thousands of dollars)	
Local housing associations and authorities	$ 1,030	$ 985
Other accounts receivable	92,723	50,695
Less: allowance for doubtful accounts	(7,786)	(6,756)
	$ 85,967	$ 44,924

6 LOANS RECEIVABLE

	2005	2004
	(thousands of dollars)	
Mortgage loans from Nunavut Housing Corporation to individuals with a maximum maturity of 25 years bearing interest between 6.0% and 14.25%, net of valuation allowance of $6,976,000 (2004 -$7,255,000)	$ 2,944	$ 3,974
Loans from Nunavut Business Credit Corporation to businesses with a maximum maturity of 25 years, bearing interest between 3.14% and 11.50%, net of valuation allowance of $637,000 (2004 - $613,000)	11,394	8,328
Loans to municipalities due in instalments to 2009, bearing interest between 0% and 8.0%, net of valuation allowance of $437,000 (2004 - $437,000)	1,331	2,022
Student Loan Fund loans due in instalments to 2016, bearing interest between 3.0% and 12.5%, net of valuation allowance and allowance for forgiveness of $1,988,000 (2004 - $1,808,000)	1,554	1,416
Other	345	334
	$ 17,568	$ 16,074

The carrying value, at the lower of cost or net recoverable value, is estimated to be the fair value of these loans receivable due to the valuation allowances provided.

7 INVESTMENT IN QULLIQ ENERGY CORPORATION

Summary financial information of the Qulliq Energy Corporation is presented below.

March 31	2005	2004
	(thousands of dollars)	
Assets	$ 161,286	$ 138,548
Liabilities	(119,642)	(124,447)
Investment in Qulliq Energy Corporation	$ 41,644	$ 14,101

7 INVESTMENT IN QULLIQ ENERGY CORPORATION (continued)

Statement of Income and Retained Earnings
For the year ended March 31

	2005	2004
	(thousands of dollars)	
Revenues (generated)	$ 57,067	$ 55,191
Contribution from Government	22,000	4,000
Division Adjustment	535	-
Expenses	(62,059)	(64,642)
Net gain (loss)	17,543	(5,451)
Surplus, beginning of year	14,101	19,552
Contributed Surplus from Government	10,000	-
Surplus, end of year	$ 41,644	$ 14,101

Included in the above are revenues from, and expenditures to, entities in the Government's reporting entity of $20,033,000 (2004 - $17,893,000) and $23,514,000 (2004 - $10,854,000), respectively.

Division of Northwest Territories Power Corporation (NTPC)

The governments of the Northwest Territories (GNWT) and Nunavut agreed to divide the net assets of the Northwest Territories Power Corporation (NTPC) on April 1, 2001 as a result of the transfer of NTPC's Nunavut operations to the Government of Nunavut. All corporate operations within the Nunavut Territory were taken over by Nunavut Power Corporation (now QEC). The transfer and related allocation (estimated) to the Government of Nunavut was subject to arbitration and subsequent ratification by each government. In September 2004 the arbitrator issued a decision on the disputed allocation. The final settlement with the GNWT resulted in a $535,000 adjustment to QEC's retained earnings.

Loan Guarantees

As part of its financing, the Qulliq Energy Corporation has arranged various credit facilities at different terms and interest rates. The Government of Nunavut has provided a guarantee for these credit facilities.

	2005	2004
	(thousands of dollars)	
Bank credit facility, interest at prime.	$ -	$ -
20 year amortizing debenture at interest rate of 6.809%.	61,000	61,000
Floating rate capital loan facility, interest at prime.	16,000	16,000
Total guarantees provided on balances outstanding	$ 77,000	$ 77,000

The bank credit facility limit is $ 12 million.

The floating rate capital loan facility limit is $ 16 million.

8 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2005	2004
	(thousands of dollars)	
Payable to related parties		
Qulliq Energy Corporation	$ 6,687	$ 1,690
Local housing associations and authorities	5,776	8,190
District education authorities	422	490
	12,885	10,370
Other		
Accounts payable	64,698	48,155
Other liabilities, payroll deductions, and contractor's holdbacks	43,802	45,811
Vacation pay and lieu time	17,402	15,597
Due to Canada	17,622	8,702
Due to Government of Northwest Territories	15,184	14,647
Deferred revenue	30,664	19,750
	189,372	152,662
	$ 202,257	$ 163,032

9 EMPLOYEE FUTURE BENEFITS

a) Non-Pension

	2005	2004
	(thousands of dollars)	
Severance	$ 7,665	$ 7,625
Removal	8,353	11,047
	$ 16,018	$ 18,672

b) Pension

i) Public Service Pension Plan

Both the Government and its employees make contributions to the Public Service Pension Plan administered by Canada. In 2005, the Government's contributions were $21,198,000 (2004 - $20,187,000).

The amount of the Government's contributions are set by Canada and represent the Government's sole obligation under this plan. The Government is not required under present legislation to make contributions with respect to actuarial deficiencies of the plan.

ii) Legislative Assembly Retiring Allowance Plans

The Government of Nunavut sponsors two defined benefit pension plans for Members of the Legislative Assembly (MLAs). Both plans are administered by the Management and Services Board of the Legislative Assembly. The plans provide pensions based on length of service and final average earnings. They provide inflation protection based on increases in the Consumer Price Index.

9 EMPLOYEE FUTURE BENEFITS (continued)

The first plan is a registered and contributory defined benefit pension plan established under the *Legislative Assembly Retiring Allowances Act* (LARAA). The Office of the Legislative Assembly, Government of Nunavut, operates a separate pension fund in trust to administer LARAA contributions and allowances. The plan came into effect on April 1, 1999.

The second plan is a voluntary non-registered, non-contributory defined benefit pension plan established under the *Supplementary Retiring Allowances Act* (SRAA) for Members who elect to participate. Payments and expenses related to the SRAA are paid from the Government's consolidated revenue fund. The plan came into effect during the 2001-2002 fiscal year and provides for benefits retroactive to April 1, 1999.

The last actuarial valuation of the plans was on April 1, 2004. The valuation is based on a number of assumptions about future events including inflation rates, interest rates, increases in remuneration, and mortality. Assumptions used reflect the Government's best estimates. These include a rate of return on assets of 7.0 % and inflation of 4.0 % for the LARAA as well as a rate of return on assets of 6.5 % and inflation of 4.0 % for the SRAA.

Retirement benefits are payable to a Member based on a percentage of the average best earnings over four consecutive years as an MLA and as a Minister, Speaker or Chairperson (if applicable) multiplied by credited service as an MLA and for each of the three positions (if applicable). A position must be held for a least one year, and the pension for each position is calculated separately. The percentages used to calculate retirement benefits are 2% for the LARAA and 3% for the SRAA.

The Normal Retirement Age under both plans is the earliest of (a) age 60, (b) 30 years of service, or (c) age plus service equals 80. A Member may retire at any time upon ceasing to be a MLA. Early retirement results in a pension reduction of 0.25% for each month a Member retires before the Normal Retirement Age. The Late Retirement Age for MLAs is 69.

The pension liabilities represent the excess of the actuarial present value of accrued pension benefits over the actuarial value of net assets available for benefits.

Pension liabilities as of March 31 are as follows:

	Pension plan LARAA	Pension plan SRAA	2005	2004
			(in thousands of dollars)	
Accrued benefit obligation	$ 2,005	$ 3,458	$ 5,463	$ 4,993
Deduct				
Pension fund net assets	1,790	-	1,790	1,784
Unamortized actuarial (gain) loss	108	(463)	(355)	-
	1,898	(463)	1,435	1,784
Pension liability	$ 107	$ 3,921	$ 4,028	$ 3,209

9 EMPLOYEE FUTURE BENEFITS (continued)

At March 31, 2005, pension fund assets had a market value of $1,845,000 (2004 - $1,824,000). The actual rates of return for the LARAA and the SRAA were 6.65% and 7.41% respectively (2004 - 24.85% and 7.41%, respectively).

LARAA and SRAA actuarial gains/loss are amortized over 6.1 and 5.5 years respectively (2004 - 8.6 and 7.6 years, respectively).

The total expenses related to pensions include the following components:

	Pension plan LARAA	Pension plan SRAA	2005	2004
			(in thousands of dollars)	
Current period benefit cost	$ 405	$ 988	$ 1,393	$ 840
Prior period cost of plan amendment	-	-	-	-
Recognition of net unamortized actuarial gains	-	-	-	-
Amortization of actuarial (gains)/losses	10	(48)	(38)	(100)
	415	940	1,355	740
Less: Members' contributions	(145)	-	(145)	(150)
Pension expense	$ 270	$ 940	$ 1,210	$ 590
Interest cost on the average accrued benefit obligation	146	230	376	344
Expected return on average pension plan assets	(126)	-	(126)	(112)
Pension interest expense	20	230	250	232
Total expenses related to pensions	$ 290	$ 1,170	$ 1,460	$ 822

Pension benefits paid for the LARAA and SRAA were $550,500 and $317,300, respectively (2004 - $237,600 and $16,000, respectively).

Pension expenses for the LARAA and SRAA were $290,000 and $1,170,000, respectively (2004 - $330,000 and $492,000, respectively).

The Government's contributions related to the LARAA and SRAA during the year were $299,000 and $658,000, respectively (2004 - $236,000 and $593,000, respectively). Contributions by the Members of the Legislative Assembly under the LARAA were $153,000 (2004 - $146,000).

10 LONG TERM DEBT

	2005	2004
	(thousands of dollars)	
Loans payable to Canada Mortgage and Housing Corporation, repayable in annual instalments to the year 2033, bearing interest at a rate of 6.97%. The discounted cash flows approximate the carrying value.	$ 50,446	$ 51,906
Mortgage payable in annual instalments to the year 2020, bearing interest at a rate of 6.803% compounded semi-annually.	5,315	5,501
	$ 55,761	$ 57,407

Principal and interest amounts due in each of the next five fiscal years and thereafter are as follows:

	Principal	Interest	Total
		(thousands of dollars)	
2006	$ 1,763	$ 3,932	$ 5,695
2007	1,887	3,808	5,695
2008	2,022	3,674	5,696
2009	2,164	3,532	5,696
2010	2,318	3,377	5,695
2011 and beyond	45,607	29,388	74,995
	$ 55,761	$ 47,711	$ 103,472

Interest expense on long term debt was $ 4,189,000 for the year (2004 - $4,374,000). The interest paid on long term debt during the year was $ 4,194,000 (2004 - $4,157,000).

Borrowing Authority

The Governor General in Council, pursuant to subsection 27(2) of the *Nunavut Act*, has approved Government borrowing up to $200 million.

	2005	2004
	(thousands of dollars)	
Qulliq Energy Corporation, long term debt	$ 77,000	$ 77,000
Nunavut Housing Corporation, long-term debt	50,446	51,906
Government of Nunavut, bank overdraft liability	25,193	3,419
Government of Nunavut, mortgage payable	5,315	5,501
Nunavut Development Corporation, subsidiary credit facilities	267	379
Total debt	$ 158,221	$ 138,205
Authorized borrowing limit	200,000	200,000
Available borrowing capacity	$ 41,779	$ 61,795

10 LONG TERM DEBT (continued)

The Qulliq Energy Corporation's long term debt and bank overdraft are guaranteed by the Government of Nunavut.

The Nunavut Housing Corporation's long term debt is guaranteed by the Government of Nunavut.

The Nunavut Development Corporation's bank overdraft is guaranteed by the Government of Nunavut.

As part of their financing, Nunavut Development Corporation subsidiaries have arranged various credit facilities at different terms and interest rates. Nunavut Development Corporation has provided a guarantee for these credit facilities.

11 EXPENSES BY TYPE

	2005	2004
	(thousands of dollars)	
Grants and contributions	$ 152,996	$ 130,821
Salaries and employee benefits	282,201	266,702
Goods and services	451,675	463,648
	$ 886,872	$ 861,171

12 RELATED PARTY TRANSACTIONS

Contributions to related parties

Transactions with related parties and balances at year end, not disclosed elsewhere in the financial statements, are disclosed in this note. During the year, the Government made contributions and grants to the following related parties which are outside of the reporting entity described in Note 1 a):

	2005	2004
	(thousands of dollars)	
District education authorities	$ 10,958	$ 10,882
Local housing associations and authorities	63,417	60,579
	$ 74,375	$ 71,461

The Government provides funding to many communities, boards, and agencies that offer services to the public, and which operate independently of normal Government operations.

13 CAPITAL LEASE OBLIGATIONS

Capital lease obligations are based upon contractual minimum lease payments for leases in effect as of March 31, 2005.

	2005	2004
	(thousands of dollars)	
Total minimum lease payments	$ 217,940	$ 238,489
Less: imputed interest and executory costs	(87,151)	(100,187)
Present value of minimum lease payments	$ 130,789	$ 138,302

Future minimum lease payments for each of the next 5 years and thereafter are:

2006	$ 16,600
2007	16,637
2008	16,648
2009	16,651
2010	16,666
2011 and beyond	134,738
	$ 217,940

Interest expense related to capital lease obligations for the year was $9,750,000 (2004 -$9,984,000) at an implied average interest rate of 7.0% (2004 - 7.3%). The capital lease obligations expire between 2013 and 2024.

14 COMMITMENTS

The Government has entered into agreements for, or is contractually committed to, the following payments subsequent to March 31, 2005:

	Expiry Date	Total (thousands of dollars)
Canada Mortgage and Housing Corporation	2038	$ 342,976
Commitments under operating leases	2023	266,410
Capital commitments	2010	115,934
Policing agreement	2012	140,366
Other commitments	2011	42,724
		$ 908,410

Commitments by fiscal year are as follows:

2006	$ 200,148
2007	101,723
2008	69,783
2009	63,865
2010	60,246
2011 and beyond	412,645
	$ 908,410

In accordance with a Declaration of Trust Agreement, the Canada Mortgage and Housing Corporation (CMHC) transferred its ownership interest in territorial rental and loan portfolios to the Northwest Territories Housing Corporation as trustee. The Northwest Territories Housing Corporation in turn transferred this interest to the Nunavut Housing Corporation (Corporation). The Corporation assumed full responsibility and liability for the social housing programs related to the portfolio and receives annual funding from CMHC to manage these programs. The agreement and funding expire in 2038.

A portion of this funding is used to make payments on portfolio-related CMHC mortgages of $129,477,000 maturing between 2006 and 2038, plus interest of $213,499,000 at interest rates ranging from 4.5% to 21.5%. As the related mortgages mature, the Corporation obtains clear title to CMHC's share of the book value of the respective assets. Until clear title is obtained, CMHC is entitled to its respective share of any gains on the disposal of any portfolio assets.

The portfolio assets and mortgages, held in trust, are recorded only as a commitment in these financial statements. Additionally, since CMHC retains the annual mortgage-related funding to make the mortgage payments, neither the funding nor the mortgage payments are recorded by the Government.

15 CONTINGENCIES

a) Post-division adjustments

The agreement governing the division of assets and liabilities between the Government of Nunavut and the Government of the Northwest Territories as at April 1, 1999 sets out a mechanism which provides for post-division adjustments.

The period for such adjustments is unlimited; and such adjustments would be made in a variety of specified circumstances such as the settlement of litigation related to events prior to the date of division. In such an event, there is an opportunity for one of the governments to file a claim against the other government to share in costs. Post-division adjustments will be recognized in the year the liability can be reasonably estimated.

b) Environmental restoration costs

The Government recognizes that there are costs related to the restoration of any contaminated sites situated on lands within the Territory of Nunavut. A liability will be accrued in the financial statements when it has been determined that the Government is liable for a site that is contaminated and where a reasonable estimate of the remediation costs can be made.

As of March 31, 2005, the Government has accrued $1.5 million (2004 - nil) for soil restoration at Port Burwell, Kiliniq Island. Any future liabilities for other sites will be recorded when identified and cost estimates of sufficient accuracy are obtained, and if it is determined that the Government is liable.

The Government will continue with its program of site inspection, assessment and remediation on an ongoing basis. To facilitate this, the Government will establish a committee to ensure all existing and potential liabilities are identified and appropriate actions initiated. This is an ongoing process which should show continuous improvement each year as the Government continues to work in a practical manner towards the determination and appropriate recognition of all environmental liabilities within the Territory.

c) Litigation

More individuals have come forward alleging abuse by a former school teacher in a region of Nunavut that was formerly part of the Northwest Territories. Pursuant to agreements negotiated prior to the division of the territories, the Governments of Nunavut and the Northwest Territories will jointly defend the action. The costs of defending the action and any damages that may eventually be awarded will be shared by the two Governments 44.34% and 55.66% respectively. An estimate of the Government of Nunavut's share of the loss arising from these suits has been accrued; however the final outcome may vary significantly from this estimate.

A number of new cases of alleged sexual abuses by former employees or contractors in regions of Nunavut that were formerly part of the Northwest Territories have been filed, or are pending, in addition to the case disclosed above. The Governments of Nunavut and the Northwest Territories will jointly defend any such proceedings and the cost of defending the actions and any damages that may eventually be awarded will be shared by the two Governments 44.34% and 55.66% respectively. An estimate of any liability that may result from these actions is not determinable at this time; consequently no liability has been accrued.

16 FINANCIAL INSTRUMENTS

The fair value of short term financial instruments, including accounts payable and accrued liabilities, cash and temporary investments, due from Canada and revenues receivable approximate their carrying amounts because of their short term to maturity.

The fair value of the Government's long term financial instruments, including long term debt, capital lease obligations, designated cash and investments, long term investments and loans receivable are detailed in the related notes. Where fair value amounts are not detailed, the carrying amounts approximate their fair value.

17 COMPARATIVE INFORMATION

Certain comparative figures have been reclassified to conform to the current year's presentation.

GOVERNMENT OF NUNAVUT

SCHEDULE A

Consolidated Schedule of Revenues by Source

for the year ended March 31, 2005

(thousands of dollars)

	2005	2004
From Canada		
Territorial Formula Financing	$ 766,550	$ 691,180
Other Transfer payments	116,556	98,360
	883,106	789,540
Revenues generated by Nunavut		
Taxes	29,803	37,930
General	39,470	42,020
Sales		
Liquor Revolving Fund (net of cost of goods sold of $ 1,290; 2004 - $1,799)	2,767	2,494
Petroleum Products Revolving Fund (net of cost of goods sold of $ 84,585; 2004 - $66,658)	17,080	13,542
	89,120	95,986
Total revenues	$ 972,226	$ 885,526

Consolidated Schedule of Tangible Capital Assets
as at March 31, 2005
(thousands of dollars)

	Buildings	Capital Lease Buildings	Storage	Tank Farms	Equipment	Infrastructure	Land	2005	2004
Cost of tangible assets									
Opening balance	$ 710,285	$ 154,807	$ 40,017	$ 107,223	$ 19,770	$ 114,051	$ 317	$ 1,146,470	$ 1,073,512
Additions	57,639	(1,541)	-	470	4,932	5,923	-	67,423	76,180
Disposals	-	(287)	-	-	(21)	-	-	(308)	(3,222)
Closing balance	767,924	152,979	40,017	107,693	24,681	119,974	317	1,213,585	1,146,470
Accumulated amortization									
Opening balance	(149,183)	(20,811)	(8,390)	(16,070)	(14,509)	(15,239)	-	(224,202)	(188,753)
Amortization for the year	(22,536)	(4,937)	(1,302)	(3,541)	(2,929)	(4,363)	-	(39,608)	(35,727)
Write-downs	(4,099)	-	-	-	(41)	(1,836)	-	(5,976)	-
Disposals	-	119	-	-	4	-	-	123	278
Closing balance	(175,818)	(25,629)	(9,692)	(19,611)	(17,475)	(21,438)	-	(269,663)	(224,202)
Work in progress	86,054	-	555	11,927	37	21,176	-	119,749	81,547
Net book value	$ 678,160	$ 127,350	$ 30,880	$ 100,009	$ 7,243	$ 119,712	$ 317	$ 1,063,671	$ 1,003,815
Estimated useful life	**30 years**	**30 years**	**30 years**	**30 years**	**5 years**	**30 years**			